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STONE & WEBSTER INCORPORATED

Annual Report 1973



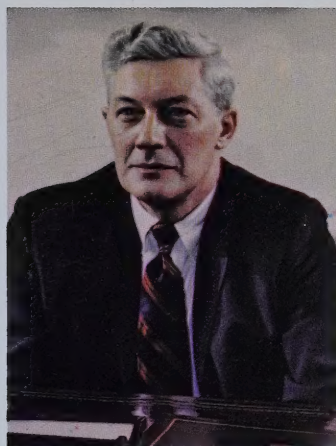
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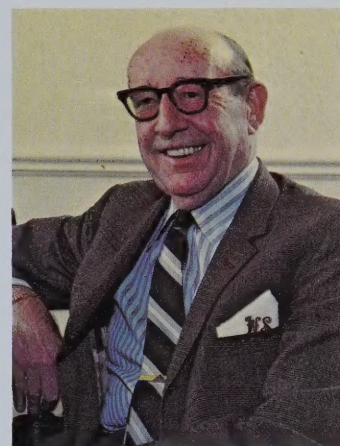
The annual meeting of Stockholders is scheduled to be held on May 9, 1974, at 100 West Tenth Street, Wilmington, Delaware. Stockholders of record at the close of business on March 18, 1974, will be entitled to vote at this meeting. Proxies will be requested by the management, and it is expected that notice of such annual meeting, together with Proxy Statement and form of Proxy, will be mailed to Stockholders on or about March 28, 1974.

OFFICE: 90 Broad Street, New York, N. Y. 10004

MANAGEMENT'S MESSAGE



RAYMOND C. FOSTER



WHITNEY STONE

To Our Stockholders and Employees:

The Stone & Webster organization had an excellent year in 1973, attaining record gross earnings of \$108,633,000. This marks the first time gross earnings have exceeded \$100 million in our 85-year history.

Consolidated net income was \$16,815,000, or \$4.49 per share, compared with \$15,524,000, or \$4.13 per share, before an extraordinary gain in 1972 of \$3,974,000, or \$1.06 per share, from the sale of a subsidiary, Industrial Gas Supply Corporation. Consolidated net income for 1973 set a new record before consideration of this extraordinary gain.

Our worldwide engineering and construction activities were largely responsible for the excellent overall earnings picture in 1973.

These earnings were achieved in the face of a substantial operating loss experienced by Stone & Webster Securities Corporation, our investment banking subsidiary. The loss, which reduced 1973 consolidated net income by \$5,324,000, or \$1.42 per share, resulted from problems generally affecting the securities industry.

A cash dividend of 50¢ was declared and paid for the first quarter of 1974. Dividends paid in 1973 were the equivalent of \$2.00 per share, consisting of three quarterly distributions of common stock of Transcontinental Gas Pipe Line Corporation, and a cash dividend paid for the fourth quarter.

It was an important growth year for our largest subsidiary, Stone & Webster Engineering Corporation. While the Corporation's involvement in the process industries sector continued to expand, particularly in petrochemicals and in the energy-related fields of petroleum and gas, it maintained its key role as a major engineer-constructor of electric power generating facilities.

The ever-increasing need for electric power is evident in the fact that over the past four and one-half decades electrical energy usage has grown at an average annual rate of slightly more than seven percent, resulting in a doubling of loads every ten years and it is anticipated that electrical energy usage will continue to grow substantially as the nation strives to meet its future energy requirements.

In line with this, the Engineering Corporation expanded its scope of activities during 1973 to be of even more assistance to the electric utility industry in coping with its most pressing problems. Stone & Webster's association with the industry spans eighty-five years, and to date the combined capacity of electric generating plants built, under construction or being designed by the Engineering Corporation totals over seventy million kilowatts. While the greatest percentage of this capacity

represents fossil fuel and hydroelectric generating facilities, the Corporation continues to increase its penetration of the nuclear power market at a significant pace. This effort is consistent with present day projections which indicate that by 1985 nuclear power is expected to account for one-third of our electric power capacity and for as much as sixty percent by the year 2000.

Stone & Webster's lead position in the nuclear power market is a reflection of its early participation in the development of nuclear energy. This participation began in the early 1940's with Stone & Webster's design and construction of Uranium 235 production facilities at Oak Ridge, Tennessee and at the Argonne Laboratory in Chicago where its engineers were associated with the first working nuclear reactor. In 1954, the Engineering Corporation was selected as the architect-engineer for the nuclear portion of the Shippingport Power Plant, the first commercial scale nuclear power plant in the United States. Since then, Stone & Webster's engineers have become widely known for their achievements in the engineering and construction of nuclear generating facilities.

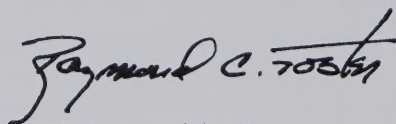
Current and future demands for electric power must be met on an economical and reliable basis while preserving the quality of our environment. The Engineering Corporation has and will continue to have a key role in meeting this challenge. Much will be required. We are continuing to expand our facilities and personnel within the framework of sound business judgment. We are offering broader and more comprehensive educational programs for employees and have established policies that assure individuals full professional development and contribute to a well motivated staff. In the same pioneering spirit that prevailed in the earliest days of the Corporation, we are continuing to search diligently for innovative solutions to client problems.

As part of a transition started in 1971 to accomplish an orderly transfer of executive responsibilities, major management changes were announced at year end which realigned the Company's top officers, effective January 1, 1974.

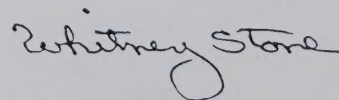
Raymond C. Foster, who had been Vice Chairman since 1971, was elected Chairman of the Board and Chief Executive Officer, succeeding Whitney Stone, who was elected Chairman of the Executive Committee. Frank B. Muhlfeld, Chairman of the Executive Committee since January 1973, was elected Vice Chairman of the Board, succeeding Mr. Foster in that position. Halmer L. Baker continues as President.

We are pleased to welcome to our Board of Directors John A. Hooper, Executive Vice President of The Chase Manhattan Bank, N.A., who was elected a Director in December 1973, replacing Robert K. Schell, whose services as a Director since 1969 we have greatly appreciated.

We extend our thanks to Stone & Webster employees worldwide for their dedicated efforts, and we appreciate the support of our stockholders and the goodwill of our many clients.



Chairman of the Board



Chairman of the Executive Committee

February 20, 1974

REVIEW OF OPERATIONS

STONE & WEBSTER ENGINEERING CORPORATION

The activities of Stone & Webster Engineering Corporation remained at a high level during 1973. Involvement in a wide range of challenging assignments throughout this country and in many other parts of the world served to demonstrate the Corporation's technical expertise and versatility. Work completed, in progress and undertaken during the year covered nearly every phase of engineering, design, construction, construction management and consulting engineering. At year end, work on nuclear power plant projects accounted for a significant share of the total volume of electric generating capacity being engineered. Work continued on fossil-fuel and hydro-electric projects and several important assignments were undertaken on behalf of clients in various sectors of the process industries.

NUCLEAR POWER During the year, work was completed on Surry Unit No. 2 for Virginia Electric and Power Company. This 788,000 net kilowatt unit duplicated Surry No. 1 which began commercial operation six months earlier. Preliminary engineering is being carried out for two additional units at the same site. For the Power Authority of the State of New York, the Engineering Corporation is nearing completion of the 821,000 net kilowatt James A. FitzPatrick Nuclear Power Plant located near Oswego, New York. Work also progressed on Beaver Valley Unit No. 1 for Duquesne Light Company which is scheduled for completion in 1975. Other companies sharing in the ownership of Unit No. 1 are Ohio Edison Company and Pennsylvania Power Company. Engineering for a second unit at the same site is well underway. Other nuclear work during the year included Shoreham Unit No. 1 for Long Island Lighting Company and Nine Mile Point Unit No. 2 for Niagara Mohawk Power Corporation, both scheduled for operation within the next five years.

In the area of nuclear site studies, a contract was awarded to the Corporation by the Pacific Power & Light Company to locate and evaluate plant sites in the Northwest. This new evaluation is a step in the client's long-range planning for nuclear generating capability in the early 1980's.

A significant development in the Engineering Corporation's nuclear power activities occurred during the year with the initiation of a Light Water Reactor (LWR) Standard Plant Project. The main objective of the project is to develop a design for a nuclear power plant which is applicable for a significant portion of the potential nuclear power plant sites in the continental United States and can use all the currently available LWR nuclear steam supply systems. This standard design concept will maintain the required high level of nuclear safety, and should accelerate the licensing cycle, thereby aiding our clients in meeting their power requirements on a more timely basis and is in keeping with the Atomic Energy Commission's policy statement of March 5, 1973 on "Methods for Achieving Standardization of Nuclear Power Plants." The Corporation will submit its report on the standardized plant design in 1974 for review by the Atomic Energy Commission.

FOSSIL FUEL POWER During the year, work was completed on Unit No. 7 at the Elmer W. Stout Station, a 450,000 kilowatt coal-fired project for



Indianapolis Power & Light Company. Also completed were Tampa Electric Company's Unit No. 2 at Big Bend Station, on Tampa Bay in Florida and, for Virginia Electric and Power Company, a third coal-fired 555,000 kilowatt unit at Mt. Storm Station in West Virginia.

Preliminary engineering services were authorized by Gulf States Utilities Company for two 600,000 kilowatt coal-fired units, and authorization was received from Tampa Electric Company to proceed with engineering, design and construction for two gas turbine generators at Big Bend Station. Work also continued on a variety of large and small fossil-fueled units including a 330,000 kilowatt generating plant at Wyodak, Wyoming. The Engineering Corporation has engineering and construction management responsibilities for the plant, a joint venture of Black Hills Power and Light Company and Pacific Power & Light Company. This will be the largest air cooled plant in the world with commercial operation scheduled for 1977. Fossil-fueled plants for Niagara Mohawk Power Corporation, Sierra Pacific Power Company and Upper Peninsula Generating Company are scheduled for completion in 1974.

Virginia Electric and Power Company's Surry Power Station was designed and constructed by Stone & Webster Engineering Corporation. Each of these two nuclear units has a net capability of 788,000 kilowatts. The first unit was put in commercial operation in December 1972 and the second in May 1973.

HYDROELECTRIC POWER During the fall of 1973, the last of four 250,000 kilowatt units at the Northfield Mountain Pumped Storage Project was placed in service for Northeast Utilities. The 1,000,000 kilowatt capacity project, with its powerhouse excavated out of solid rock 700 feet below the top of Northfield Mountain, is one of the largest pumped storage plants in the world. Engineering work continued on the Rock Island Second Powerhouse for Public Utility District No. 1 of Chelan County, Washington which will contain eight of the largest bulb-type turbines ever built and the first to be installed in the United States. Assistance was also provided to Upper Peninsula Power Company in connection with modifications to Prickett Dam, and a number of safety inspections required periodically by the Federal Power Commission were conducted for Engineering Corporation clients.

PROCESS INDUSTRIES The Engineering Corporation's process activities continued to increase in 1973. Important assignments in connection with substitute natural gas (SNG) facilities and ethylene facilities were included in the volume of work conducted.

Engineering, procurement and construction services were authorized by Baltimore Gas and Electric Company for a 60 million cubic feet per day SNG facility planned for installation in Maryland's eastern Baltimore County. This project will utilize the BASF/Lurgi Gasyntan Process.

The Chinese Petroleum Corporation, Taiwan, has authorized engineering, procurement and construction advisory services on a second 230,000 metric tons per year ethylene plant at Lin Yuan. Earlier, the Engineering Corporation provided similar services for this client at Kaohsiung. Work was started at mid-year on the expansion of Mobil Chemical Company's ethylene plant in Beaumont, Texas for which the Engineering Corporation is providing engineering, procurement and construction services. When completed, the new addition will result in doubling the capacity of the plant to 900 million pounds of ethylene per year.

The Engineering Corporation was authorized in 1973 under a subcontract from Westinghouse Electric Corporation to begin work on the preliminary process

Stone & Webster Engineering Corporation provided engineering, design and construction management for Unit No. 7 at the Elmer W. Stout Station for Indianapolis Power & Light Company. This coal-fired 450,000 kilowatt unit is located six miles southwest of downtown Indianapolis.

Fossil-fueled power generation has doubled at Tampa Electric Company's Big Bend Station on Tampa Bay in Florida. Stone & Webster Engineering Corporation completed design and construction of Unit No. 2 of the facility in April 1973, duplicating the 425,000 kilowatt Unit No. 1 which went on line 29 months earlier. A third unit is presently under construction at the same site.



A new 450,000-barrel liquefied natural gas storage tank and an attendant send-out facility provide increased peak-shaving capabilities for Atlanta Gas Light Company to help meet customer needs. Stone & Webster Engineering Corporation provided overall project management responsibility as it did for the original LNG project completed in 1972.



design phase of a fluidized-bed oil gasification/desulfurization demonstration unit to be installed in the New England Electric System's plant at Providence, Rhode Island. Westinghouse is under contract to the Environmental Protection Agency to provide the overall program management. During the year, the Engineering Corporation announced a long range project in connection with optimum utilization of available natural resources. This project is a research and development program on coal liquefaction and gasification which has been undertaken in conjunction with General Atomic Company, a joint venture of Gulf Oil and Royal Dutch/Shell. This program integrates the Stone & Webster Coal Solution/Gasification Process with General Atomic's high temperature gas-cooled nuclear reactor (HTGR), and has the potential for converting the coal feedstock into ecologically acceptable fuels.

In addition, work continued for a number of other clients, including Apco Oil Corporation, Wisconsin Electric Power Company, Atlanta Gas Light Company and Hemijiska Industrija at Pancevo, Yugoslavia.

ORGANIZATIONAL ACTIVITIES Expansion of facilities and personnel during 1973 reflected the Engineering Corporation's volume of work presently contracted and anticipated. Construction was started on the \$40 million Boston headquarters office building scheduled for occupancy in 1975. Operations Centers at Flushing, New York and Cherry Hill, New Jersey were expanded to enable these locations to accommodate additional project assignments. The Engineering Corporation also announced plans to establish an Operations Center in Denver, Colorado. To better serve clients in the process industries sector, most of the Engineering Corporation's personnel with process engineering responsibilities were consolidated at mid-year into offices at One Penn Plaza in midtown Manhattan.

The continuing increase in the size and complexity of projects and the increasing influence of regulatory bodies on the scope of the Engineering Corporation's activities have resulted in the expansion of a number of Divisions and Departments. The Quality Assurance Department has strengthened its administrative and technical effectiveness by establishing a new Division responsible for the standardization of Quality Assurance procedures and programs. It has also enlarged its Non-Destructive Test Group to Division size and assumed responsibility for all of the Corporation's vendor inspection functions. The Department plays a significant role in contributing to a project's licensability, reliability and performance.

During 1973, the Environmental Engineering Division was considerably strengthened. Included among new personnel were a number of highly specialized engineers and scientists who will increase the Engineering Corporation's effectiveness in this vital area of client services. These services include aquatic and terrestrial ecology, hydrothermal engineering, meteorology, air quality control, environmental monitoring, fuels, noise control and socio-economics. Additionally, the responsibilities for water treatment and non-radioactive waste control engineering were incorporated into the Division to enhance this area of the Corporation's activities.

In the latter part of 1973, an Operations Services Division was established to serve electric utility clients in a number of important areas following commercial operation of a plant. Key services provided by this Division include engineering

advice in plant operations, maintenance, management and management information and reporting systems required by regulatory agencies.

The activities of the Engineering Corporation's Continuing Education Division have been expanded in recognition of the growing complexity and diverse nature of client requirements. Employee participation in a variety of internal technical and non-technical courses has exceeded that of any previous year and participation in courses, seminars and symposia offered by educational institutions, technical societies and industrial organizations has increased substantially. Further evidence of the Corporation's commitment to continuing educational opportunities is the strengthening of its Career Development Program for newly graduated engineers and scientists.

STONE & WEBSTER ENGINEERING LIMITED

Stone & Webster Engineering Limited, London, was successful in obtaining significant new business in 1973 in diverse activities. The Company was named managing contractor of the Shahpur Chemical Company's \$100 million granulated fertilizer plant expansion at Bandar Shahpur, Iran. As managing contractor, the Company will coordinate the engineering activities and worldwide purchase for the offsites and utilities, manage all shipment and importation into Iran and construct the plant.

Imperial Chemical Industries Limited has authorized Stone & Webster Engineering Limited to undertake the process design study for a new 500,000 tons per year ethylene plant. The plant is to be capable of processing both naphtha and gas liquids feedstocks. Albright and Wilson (Marchon Division) awarded Stone & Webster Engineering Limited the contract for the engineering and erection supervision of a phosphoric acid purification unit for installation at its Cumberland, U.K. factory.

The London company was awarded in 1973 the contract for the design and purchase of equipment for stabilization, desalting and reduction of sulphur content of crude oil from the offshore oil field of Abu Al Bu Khoosh in the Arabian Gulf for Total Exploration et Production, a member company of the Compagnie Francaise des Petroles group. The equipment is being mounted on an offshore platform linked to a separate platform carrying the well head equipment. The project has involved development of designs to accommodate the very heavy equipment on the limited space available on the platform while allowing for its rapid installation in pre-assembled packages and without jeopardizing safety. Stone & Webster Engineering S.A. in Paris is participating in this work.

During 1973, the Company continued its work on a major brewery for Bass Charrington Limited in the U.K., on a distillery for Irish Distillers Limited in Ireland, and on the Ale House expansion for Arthur Guinness Son and Company (Dublin) Limited, also in Ireland. Work was completed on the world's largest single train heavy oil cracker for Shell Nederland Chemie B.V. in Holland and on the ethylene plant for Atochimie at Gonfreville, France. Work was also completed on one of the gas recompression stations at Hassi Messaoud for the Production Division of Sonatrach, the Algerian State Oil Company. Our European companies were also active in 1973 performing work to expand existing ethylene plant capacities for Anic S.P.A. in Italy, Petkim Petrokimya A.S. in Turkey and Atochimie in France.



This distillery in Lethbridge, Alberta for Palliser Distillers Limited, an affiliate of Gilbey Canada Limited, went into production in the autumn of 1973. Stone & Webster Canada Limited was responsible for the engineering, procurement and construction management of the plant which is designed to produce annually three million proof gallons of distilled spirits.



The University of Toronto's John P. Robarts Research Library and Faculty of Library Science was completed in 1973. Stone & Webster Canada Limited was responsible for the project management of this \$42 million complex. Separate sections house the Rare Books Library and the School of Library Science and, with over 1,000,000 square feet of floor space, it is second in size to the Library of Congress in Washington, D. C.

This plant, now on stream, is the world's largest single train heavy oil cracker, designed and constructed by Stone & Webster Engineering Limited for Shell Nederland Chemie at Moerdijk in Holland.



Stone & Webster Engineering B.V. completed the design of an electrical power generator station project for ARAMCO. Stone & Webster Engineering B.V. has also participated in other study work related to various activities in the oil field for the same client. The Dutch company, in collaboration with Stone & Webster Engineering Limited, also was awarded a design study contract for Shell Internationale Chemie Maatschappij N.V. for acetylene and resin production facilities.

STONE & WEBSTER CANADA LIMITED

Diversification was a keynote at Stone & Webster Canada Limited with projects covering the steel, distilling, chemical, petrochemical and power sectors of industry. The Power Group, inaugurated early in 1973, is now well established as a significant entity contributing to the Canadian company's efforts.

New contracts for engineering, design and construction received in 1973 included a new electric furnace and continuous casting facility in L'Original, Ontario for Sivaco Wire & Nail Company, a chemical plant expansion for Du Pont of Canada Limited in Maitland, Ontario, and the expansion of Gulf Oil Canada Limited No. 2 Olefins Plant in Varennes, Quebec.

Assignments covering engineering and design were obtained from a number of clients, including a Central System Maintenance Centre for The Hydro-Electric Power Commission of Ontario, a glucamylase facility for L. J. McGuinness & Company Limited, Toronto, ski-jumps for Thunder Bay Ski Jumps Limited in Ontario, and conceptual design of rubber processing facilities for Polysar Limited, Sarnia, Ontario.

New construction assignments have been received from The Algoma Steel Corporation, Limited for the No. 2 Continuous Casting Plant, which will be one of the largest in North America, the relocation of a 106-inch strip mill, a material handling system, turbo blower and No. 6 Boiler House, and civil work for a new coke oven battery.

Smirnoff Beverage & Import Company has awarded Stone & Webster Canada Limited the first phase of a grass roots alcoholic beverage and bottling plant. Consulting and appraisal services were provided to several Canadian clients in cooperation with Stone & Webster Management Consultants, Inc. and Stone & Webster Appraisal Corporation. Work completed in 1973 included the Humanities Library project for the University of Toronto, the River Water Pump house for Dow Chemical of Canada Limited and a steel bar mill expansion for Burlington Steel Company.

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

Advisory services of Stone & Webster Management Consultants, Inc. were in widespread demand during the year from an increased number of utility and industrial clients. While a high percentage of the Company's work is, traditionally, for repeat clients, there were 59 new clients in 1973 including 52 industrial companies and seven utilities.

Assignments relating to economic problems of national concern in 1973 highlighted the year's activities. Energy studies, which were aimed at more

efficient use of existing supplies and finding alternate sources of energy, were provided for industrial clients as well as utilities. Assistance for utilities seeking rate increases, including cost of money and rate of return studies, continued at a high level. The number of appraisals and valuations of property and intangible assets increased substantially during the year, and there was a growing demand for the Company's expertise in conducting studies involving depreciation, markets and supply, and financial forecasting. Continued growth in the number of contracts from transportation organizations for maintenance, organizational and operations studies reflected the increasing public interest in improved mass transit services.

In February 1973, Management Consultants formed a new subsidiary, Stone & Webster Appraisal Corporation, to combine the physical appraisal functions of the Engineering Corporation with the going-concern valuations of Management Consultants. Although Stone & Webster conducted its first appraisal in 1892 and for many years has provided valuation services, these activities had not previously been centered in a single organization. The Appraisal Corporation has undertaken appraisal and valuation assignments of all kinds for utility and industrial clients, and the prospects for its continued growth are promising.

Stone & Webster Overseas Consultants Inc. continues its supervision of the installation of a gas distribution system for Companhia Municipal de Gas in Sao Paulo, Brazil, and in Panama it continues to provide advisory services to Instituto de Recursos Hidraulicos y Electrificación, the principal electric utility in that country.

STONE & WEBSTER SECURITIES CORPORATION

The year 1973 was one of the most difficult in the history of the securities industry and, as mentioned earlier in this report, the Securities Corporation sustained a loss, its first since 1942. Inventory losses, increased cost of carrying trading inventory due to record high interest rates and an abnormally low volume of new underwritings in 1973 were the principal reasons for the poor performance.

Corrective steps such as a reduction of block trading activities, a limit of the amount which will be carried in its trading inventory on a continuing basis, and a general reshaping of the branch office system to emphasize institutional coverage and more profitable private investor sales should reduce the risk exposure of the business in 1974.

In addition to the corrective measures which have already been instituted, the situation remains under careful study by management with a view to restoration of an affirmative contribution by the subsidiary to Stone & Webster's overall profitability.

As a major investment banker, Stone & Webster Securities Corporation managed or co-managed a total of 45 corporate bond and stock offerings having an aggregate market value of \$1,927,047,000. Private placements of securities with institutional investors increased during the year, and the Securities Corporation managed or co-managed an aggregate value of \$242,900,000. Federal, state and municipal bond activities continued at profitable levels, including "pollution control" municipal financings which received wider acceptance during 1973.

The Corporation maintains active secondary markets in corporate bonds, preferred stocks and selected over-the-counter securities for both institutional and private investors. The listed stock department provides expert executions on all exchanges for clients of the Corporation. Stone & Webster Securities Corporation has 15 offices in the United States. The Corporation is an associate member of the American Stock Exchange, a member of the Midwest and Pacific Coast Stock Exchanges and the National Association of Securities Dealers, Inc.

GAS AND OIL OPERATIONS

Stone & Webster is involved in exploring for, developing and producing gas and oil through three of its subsidiaries with offices located in Houston, Texas. Enterprise Resources, Incorporated is engaged in exploration, development and operation of gas and oil properties in the United States and also purchases, gathers and transports natural gas for resale to distributors. The Company's principal activities are in the Gulf Coast region of Texas. Enterprise usually joins with other companies in exploration activities. San Salvador Development Company, Inc. owns gas and oil interests in Texas and New Mexico and continues to receive, as its major source of income, installment payments resulting from the sale in 1962 of most of its gas interests in the San Salvador Field, Texas. Spruce Hills Production Company, Inc. owns varying interests in several hundred gas and oil wells located principally in the Province of Alberta, Canada. Continued in-field development drilling augmented reserves and helped Spruce Hills improve its performance in 1973 as compared to 1972. In 1973 gas and oil operations from our interests produced a net daily average of approximately 10.6 million cubic feet of natural gas and 1,050 barrels of oil and liquids.

Profitable current operations and success in the exploration program reinforce Stone & Webster's continuing interest in increased investment in the oil and gas business through further exploration and development, both in the United States and in Canada.

COMMERCIAL COLD STORAGE, INC.

Commercial Cold Storage, Inc. continued its activities in serving the rapidly growing southeast with the most modern refrigerated storage services. Atlanta, the distribution center for the area, has kept pace with the region, and the growth has been reflected in increased tonnages handled by Commercial, especially during the second half of 1973. Our in-house, on-line computer system was replaced this year with a larger, more efficient model to handle the increased flow of orders and anticipated future growth. Commercial also expanded an adjunct of its food warehousing business by providing increased amounts of office space on its premises for local food brokers and distributors.

STONE & WEBSTER, Incorporated and Subsidiaries

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FINANCIAL REVIEW

GROSS EARNINGS

Consolidated gross earnings of \$108,633,000 in 1973 exceeded those of the year before by \$14,568,000 or 15%. Gross earnings from engineering and construction services of \$83,858,000 were the highest in our history. This compares to \$57,687,000 in 1972, an increase of \$26,171,000 or 45%. Gross earnings from consulting and other services, as well as dividends and interest, increased substantially over 1972, while gross earnings from cold storage activities increased moderately. Natural gas and oil sales from continuing operations were about the same as the prior year. Gross earnings from securities underwriting and trading were \$7,430,000, a decrease of \$9,115,000 from the previous year.

EXPENSES AND TAXES

Operating and general expenses were \$69,140,000 as compared with \$60,544,000 in 1972. Since our activities consist mainly of furnishing professional services, a large staff of highly skilled and dedicated employees is essential in order to complete assignments while meeting Stone & Webster's standards for excellence. Accordingly, the major portion of our expenses consists of salaries and related costs, and the increase in expenses in 1973 is primarily related to the Engineering Corporation's substantial increase in gross earnings for the year. Taxes other than income taxes were \$3,177,000 in 1973 versus \$2,331,000 in the prior year. The increase was due primarily to increased payroll taxes associated with salaries.

Interest expense increased \$875,000, principally due to higher interest rates and the level of securities inventory carried during the year in connection with our investment banking activities.

The provision for state, local and foreign income taxes of \$4,390,000 increased \$2,299,000 over 1972 primarily because of higher taxable income subject to state and local taxes. The provision for Federal income taxes was about the same for both periods.

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31, 1973	Year Ended December 31, 1972
Gross Earnings:		
Engineering and construction services (Note D)	\$ 83,858,000	\$57,687,000
Consulting and other services	5,472,000	4,783,000
Securities underwriting and trading, and other income incident to investment banking business (Note E)	7,430,000	16,545,000
Natural gas and oil sales, profit and other income from mineral interests <i>Includes gross earnings of \$3,350,000 in 1972 from discontinued opera- tions. (Note F)</i>	2,618,000	5,918,000
Cold storage and related activities	2,175,000	2,035,000
Dividends and interest	5,446,000	4,861,000
Rents	1,276,000	1,510,000
Other	358,000	726,000
Total	<u>108,633,000</u>	<u>94,065,000</u>
Operating and General Expenses	69,140,000	60,544,000
<i>Includes cost of gas purchased for resale of \$2,649,000 in 1972 by discontinued operations. (Note F)</i>		
Taxes, Other than Income Taxes	3,177,000	2,331,000
Provision for Depreciation and Depletion (Note G)	1,574,000	1,633,000
Interest Expense	2,539,000	1,664,000
Total	<u>76,430,000</u>	<u>66,172,000</u>
Income before Provision for Income Taxes and Extraordinary Item	<u>32,203,000</u>	<u>27,893,000</u>
Provision for Income Taxes (Note K):		
Federal	10,998,000	10,278,000
State, local and foreign	4,390,000	2,091,000
Total	<u>15,388,000</u>	<u>12,369,000</u>
Income before Extraordinary Item (per share*: \$4.49 in 1973; \$4.13 in 1972)	<u>16,815,000</u>	<u>15,524,000</u>
Extraordinary Item:		
Gain on sale of subsidiary (per share*: \$1.06) (Note F)	—	3,974,000
<i>After deduction of applicable income taxes of \$2,675,000.</i>		
Net Income (per share*: \$4.49 in 1973; \$5.19 in 1972)	<u>16,815,000</u>	<u>19,498,000</u>
Retained Earnings at beginning of year	83,675,000	69,973,000
Total	<u>100,490,000</u>	<u>89,471,000</u>
Dividends Declared (per share: \$2.00 in 1973; \$1.92½ in 1972) (Note H)	4,635,000	5,796,000
Retained Earnings at end of year	<u>\$ 95,855,000</u>	<u>\$83,675,000</u>

* Per share figures based on average number
of shares outstanding during each year.

See Notes to Financial Statements.

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1973	December 31, 1972
Current Assets:		
Cash	\$ 13,001,000	\$ 14,135,000
U. S. Government Securities and Bank Certificates of Deposit	25,024,000	22,614,000
Securities incident to investment banking business (Notes B and C)	17,734,000	57,124,000
December 31, 1973 at market (cost \$18,516,000)		
December 31, 1972 at cost (market \$57,263,000)		
Accounts, Notes and Interest Receivable	41,685,000	50,259,000
Includes \$22,032,000 at December 31, 1973 and \$32,881,000 at December 31, 1972 incident to the investment banking business. (Note C)		
Unbilled Charges under Contracts	15,708,000	11,524,000
Other Current Assets	47,000	24,000
Total Current Assets	113,199,000	155,680,000
Clients' Funds Held under Construction Contracts (per contra)	1,367,000	966,000
Other Investment Securities, at cost (Notes H and I)	5,783,000	6,547,000
Total based on market quotations: \$45,526,000 at December 31, 1973 and \$66,166,000 at December 31, 1972 (no allowance made for taxes on unrealized appreciation).		
Long-Term Receivable, less amount included under Current Assets	1,909,000	2,279,000
From sale of natural gas interest, due in varying amounts from 1975 to 1980.		
Natural Gas and Oil Properties and Other Mineral Interests	4,618,000	4,644,000
At cost, less accumulated depreciation and depletion of \$3,447,000 at December 31, 1973 and \$3,222,000 at December 31, 1972.		
Cold Storage Plant and Equipment	7,603,000	7,369,000
At cost, less accumulated depreciation of \$1,653,000 at December 31, 1973 and \$1,364,000 at December 31, 1972.		
Office Buildings and Other Real Estate (Note J)	19,907,000	4,567,000
At cost, less accumulated depreciation of \$4,824,000 at December 31, 1973 and \$4,724,000 at December 31, 1972. Includes land held for resale of \$7,326,000 at December 31, 1973 and \$1,706,000 at December 31, 1972.		
Furniture and Equipment	6,378,000	3,993,000
At cost, less accumulated depreciation of \$4,749,000 at December 31, 1973 and \$4,143,000 at December 31, 1972.		
Other Assets and Deferred Charges	6,350,000	5,938,000
Includes cost in excess of equity of firms acquired prior to November 1, 1970 of \$1,961,000 at December 31, 1973 and 1972.		
	<u>\$167,114,000</u>	<u>\$191,983,000</u>

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1973	December 31, 1972
Current Liabilities:		
Notes Payable (bank loans)	\$ 14,596,000	\$ 44,890,000
<i>Indebtedness of investment banking subsidiary, with securities pledged as collateral. (Note C)</i>		
Accounts Payable	19,847,000	29,396,000
<i>Includes \$14,017,000 at December 31, 1973 and \$25,325,000 at December 31, 1972 incident to the investment banking business.</i>		
Dividend Payable (Note H)	1,871,000	361,000
Advance Payments by Clients	12,470,000	8,462,000
Long-Term Debt (payments due within one year)	543,000	188,000
Accrued Federal, State and Other Taxes	4,353,000	10,053,000
Other Accrued Liabilities	10,271,000	10,108,000
Total Current Liabilities	63,951,000	103,458,000
Clients' Funds Held under Construction Contracts (per contra)	1,367,000	966,000
Long-Term Debt of subsidiary companies, less amount shown under Current Liabilities	3,024,000	914,000
<i>Due in varying amounts from 1975 to 1994, and bearing interest at various rates.</i>		
Deferred Profit	2,234,000	2,597,000
<i>From sale of natural gas interest, being taken into earnings on installment basis.</i>		
Deferred Income Taxes	839,000	529,000
Stockholders' Equity:		
Preferred Stock	—	—
<i>Authorized, 2,000,000 shares of no par value; none issued.</i>		
Common Stock, carried at	7,970,000	7,970,000
<i>Authorized, 10,000,000 shares of \$1 par value; issued, 4,287,502 shares, including shares held in treasury.</i>		
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000
Retained Earnings	95,855,000	83,675,000
	112,752,000	100,572,000
Less Common Stock in Treasury	17,053,000	17,053,000
<i>545,030 shares at cost. (Note I)</i>		
Total Stockholders' Equity	95,699,000	83,519,000
	<u>\$167,114,000</u>	<u>\$191,983,000</u>

STONE & WEBSTER, Incorporated and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1973	Year Ended December 31, 1972
Source of Funds:		
Operations:		
Income before extraordinary item	\$16,815,000	\$15,524,000
Depreciation and depletion	1,574,000	1,633,000
	<u>18,389,000</u>	<u>17,157,000</u>
Extraordinary item — proceeds from sale of subsidiary, net	—	11,109,000
Market value of treasury shares issued	—	325,000
	<u>\$18,389,000</u>	<u>\$28,591,000</u>
Application of Funds:		
Additions to property, plant and equipment	\$19,507,000	\$ 2,731,000
Purchase of common stock for treasury	—	2,868,000
Dividends declared (Note H)	4,635,000	5,796,000
Increase (decrease) in other assets and liabilities	(2,779,000)	550,000
Increase (decrease) in working capital:		
Increase in cash and cash items	1,276,000	10,062,000
Increase (decrease) in other current assets	(43,757,000)	36,142,000
Decrease (increase) in current liabilities	<u>39,507,000</u>	<u>(29,558,000)</u>
	<u>\$18,389,000</u>	<u>\$28,591,000</u>

NOTES TO FINANCIAL STATEMENTS

(A) Summary of significant accounting policies:

Basis of Consolidation. The consolidated financial statements include the accounts of the Corporation and all subsidiaries. Significant intercompany transactions are eliminated. The accounts of subsidiaries outside the United States and Canada are included in the consolidated financial statements on the basis of fiscal years ending on November 30. The accounts of foreign subsidiaries are translated at year-end rates of exchange since net non-current assets are insignificant and the effect on foreign operating results is not material. Unrealized gains on conversions are deferred if material and unrealized losses are charged to income currently.

Depreciation and Depletion. Depreciation generally is provided on a straight-line basis (accelerated method for

income taxes) over the estimated useful lives of the assets. Depletion of natural gas and other mineral interests is provided on the basis of the unit cost method.

Long-Term Contracts. Income from long-term engineering and construction contracts is determined on the percentage of completion method.

Income Taxes. Deferred income taxes are provided for the income tax effect of timing differences between book and tax income principally relating to depreciation, pension and other expenses. Investment tax credits are accounted for as a current reduction of income taxes. No provision for income taxes has been made for the undistributed earnings of foreign subsidiaries (\$2,026,000) since such amounts will be invested indefinitely in such operations.

Nonmonetary Transfers. Nonmonetary transfers, all of which were made prior to October 1, 1973, were recorded on the basis of the carrying amounts of the assets transferred.

(B) In 1973, the Corporation's investment banking subsidiary, in accordance with the accounting practice set forth in the AICPA Industry Audit Guide for Audits of Brokers and Dealers in Securities, adopted the policy of carrying its securities inventory at market value. Under this practice the increase or decrease in unrealized appreciation or depreciation is reflected currently in the income statement. Previously such securities had been carried at cost and only realized gains or losses were taken into income. The effect of this change on consolidated net income in 1973 and 1972, and the cumulative effect on retained earnings at December 31, 1972 were not material.

(C) Notes Payable (bank loans) are collateralized by marketable securities consisting of securities owned by the investment banking subsidiary (\$10,786,000 at December 31, 1973, at market and \$39,925,000 at December 31, 1972, at cost) and securities held as collateral for receivables on uncompleted transactions (\$7,033,000 at December 31, 1973, at market and \$13,075,000 at December 31, 1972, at cost).

(D) Gross earnings from engineering and construction services include, generally on a percentage of completion basis, fees earned on agency contracts and the excess of revenues (\$94,824,000 in 1973 and \$36,971,000 in 1972) over direct construction costs (\$85,584,000 in 1973 and \$31,058,000 in 1972) on non-agency contracts. Such revenues and costs are exclusive of expenditures made directly by clients.

(E) The assets, liabilities and stockholder's equity of Stone & Webster Securities Corporation (the Corporation's investment banking subsidiary) and its subsidiaries included in the consolidated financial statements were \$46,238,000, \$35,419,000 and \$10,819,000, respectively, at December 31, 1973 and \$100,379,000, \$82,564,000 and \$17,815,000, respectively, at December 31, 1972. Net losses of Securities Corporation and its subsidiaries amounted to \$9,996,000 in 1973 (including \$783,000 as a result of the change described in Note B) and \$41,000 in 1972. After adjustment for the consolidated income tax benefits, the operations of Securities Corporation and its subsidiaries reduced consolidated net income by \$5,324,000 in 1973. The effect on consolidated net income in 1972 was not material.

(F) On June 15, 1972, the Corporation sold all of the stock of a subsidiary, Industrial Gas Supply Corporation, for approximately \$13,750,000, resulting in a net gain of \$3,974,000 after applicable income taxes.

(G) Depreciation expense was \$1,341,000 for 1973 and \$1,394,000 for 1972. At December 31, 1973 depreciable assets were carried at \$25,069,000 after deducting accumulated depreciation.

(H) On February 21 and May 16, 1973, the Corporation declared quarterly dividends on its Common Stock payable in shares of common stock of Transcontinental Gas Pipe Line Corporation (now known as Transco Companies, Inc.) on April 18 and July 18, respectively. The dividends, declared on the basis of one share of Transco stock for each 32 and 31 shares of stock of the Corporation held on the respective record dates, required 224,066 shares (at cost \$511,000; at market \$3,194,000) of the Corporation's holdings of Transco stock and cash in the amount of \$194,000 for fractional interests. Retained earnings were charged with \$705,000 representing the aggregate of the cost of the Transco shares and the related cash for fractional interests.

(I) In 1972, the Corporation exchanged certain shares of its holdings in investment securities for 125,700 shares of its Common Stock. The cost of the investment securities exchanged (\$672,000) plus applicable federal income taxes (\$1,722,000) were added to the Treasury Stock account. The Corporation also purchased in 1972, 12,000 shares of its Common Stock for its treasury at a cost of \$474,000. In January 1972, 7,202 shares of Treasury Stock were issued in connection with the purchase of the assets and business of an investment banking firm. The excess of the market price (\$101,000) of the shares issued over the related cost thereof was credited to the Common Stock account. The Corporation may continue, from time to time, to purchase additional shares of its Common Stock, for possible use in the employee savings plan and for other corporate purposes, on the New York Stock Exchange, or otherwise.

(J) Total rental expense under long-term leases (principally office space) was \$6,634,000 for 1973 and \$4,621,000 for 1972. Subsidiary companies are committed for minimum annual rentals under long-term leases, the longest of which expires in 1995, of \$8,476,000, \$7,502,000, \$4,791,000, \$3,789,000 and \$3,220,000 for the years 1974 through 1978, respectively, and \$12,368,000, \$9,919,000 and \$9,500,000 for the five year periods 1979-1983, 1984-

1988 and 1989-1993, respectively. The total annual rental commitment from 1994 on amounts to approximately \$2,195,000. A new office building, expected to be completed in 1975, is being constructed for a subsidiary of the Corporation. The estimated cost of the building, including land, is \$40,000,000, of which \$9,749,000 has been expended to December 31, 1973 and is included under Office Buildings and Other Real Estate.

(K) Income tax expense includes provisions for deferred income taxes of \$310,000 in 1973 and (\$138,000) in 1972. The following tabulation reconciles the federal statutory rate to the effective rate for the years 1973 and 1972:

	Years Ended December 31,	
	1973	1972
Federal statutory tax rate	48.0%	48.0%
State and local income taxes net of federal tax benefit	6.5	3.0
Dividend received deduction	(3.8)	(5.7)
Other	(2.9)	(1.0)
Effective tax rate	<u>47.8%</u>	<u>44.3%</u>

(L) The gross earnings and net assets of foreign subsidiaries included in the financial statements amounted to \$8,040,000 and \$1,706,000, respectively, in 1973 and \$6,635,000 and \$1,714,000, respectively, in 1972. Net income of the foreign subsidiaries, including translation gains and losses arising from conversion of balance sheet accounts at year end, was not material.

(M) The Corporation and subsidiaries have retirement plans covering executive, administrative, technical and other employees. Total retirement expense for 1973 was \$2,503,000 as compared with \$2,380,000 for 1972. These expenses were funded on a current basis. The amounts include amortization of the unfunded balance of prior service cost over periods of from 20 to 30 years.

(N) Certain subsidiaries have been named as defendants, along with others, in legal actions claiming damages in connection with construction projects. Counsel and management believe, on the basis of their examination and consideration of these matters, that these actions will not result in payment of amounts which would have a material effect on the financial statements.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of Stone & Webster, Incorporated:

We have examined the consolidated balance sheet of Stone & Webster, Incorporated and Subsidiaries as of December 31, 1973, and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the year 1972. We did not examine the financial statements of certain consolidated foreign subsidiaries, which statements reflect total assets and gross earnings constituting 4% and 7%, respectively, of the related consolidated totals in 1973 and 5% and 7%, respectively, in 1972. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such foreign subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the reports of the other auditors, the aforementioned financial statements present fairly the consolidated financial position of Stone & Webster, Incorporated and Subsidiaries at December 31, 1973 and 1972, and the consolidated results of their operations and the consolidated changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

New York, February 19, 1974

THE STONE & WEBSTER ORGANIZATION

Listed below, with an outline of their major activities, are the principal corporate components of the Stone & Webster organization. The subsidiaries listed are 100 per cent owned.

Stone & Webster, Incorporated is principally engaged in the coordination of the activities and policies of its subsidiaries. It also owns certain interests, mainly in the natural gas industry, and is prepared to participate in promising enterprises which may not be in a position to obtain public financing.

Stone & Webster Engineering Corporation furnishes complete design and construction services for power and industrial projects and, through its Process Industries Group, to companies in the petroleum, chemical, paper and pharmaceutical fields. It also constructs from plans developed by others, makes engineering reports and business examinations, and undertakes consulting engineering work.

Stone & Webster Management Consultants, Inc. supplies comprehensive management consulting services for business and industry, including public utility, transportation, pipeline, land development, banking, petroleum and manufacturing companies. Government agencies, foreign and domestic, also use these services. Foreign assignments are conducted by Stone & Webster Overseas Consultants Inc. Stone & Webster Appraisal Corporation performs physical appraisals and going-concern valuations for industrial companies and utilities.

Stone & Webster Securities Corporation furnishes comprehensive financial services to issuers of securities and to investors, and engages in underwriting and distributing, at wholesale and at retail, corporate, government and municipal bonds, as well as preferred and common stocks. It also handles orders in issues traded on all stock exchanges and in the over-the-counter market.

Stone & Webster Engineering Limited, with offices at 20, Red Lion Street, London WC1R 4PT, furnishes design and construction services, particularly for petroleum and chemical companies, in Great Britain, Europe, the Middle East and Australia, in association with Stone & Webster Engineering B.V. (Rijswijk, Holland), Stone & Webster Engineering S.A. (Paris), Stone & Webster Engineering Pty. Limited (Sydney, New South Wales) and Stone & Webster Engineering S.p.A. (Milan, Italy).

Stone & Webster Canada Limited, with headquarters office at 60 Adelaide Street East, Toronto M5C 1K3, offers to Canadian industry the services of the entire Stone & Webster organization, with particular emphasis on design and construction, reports, appraisals, surveys and general advisory services. Design and construction services in the mining and metallurgical fields are furnished to clients both within and outside of Canada.

Enterprise Resources, Incorporated owns and operates gas and oil properties in Texas. The company explores for gas and oil in the United States and also purchases, gathers and transports natural gas for resale to distributors.

San Salvador Development Company, Inc. owns natural gas and other mineral interests, principally in Texas.

Spruce Hills Production Company, Inc. owns oil and natural gas interests in Canada, principally in the Province of Alberta.

Commercial Cold Storage, Inc. is engaged in modern cold storage warehousing and offers blast-freeze and a wide variety of other refrigeration services in the Metropolitan Atlanta area of Georgia to food-processors and others.

The Stone & Webster Building, Incorporated operates, for Stone & Webster, Incorporated, the Stone & Webster building located at 90 Broad Street, New York, N. Y. Approximately 40% of the available space is occupied by the Stone & Webster organization with the balance held for rental to others.

STONE & WEBSTER, Incorporated and Subsidiaries

TEN-YEAR STATISTICAL

	1973	1972	1971
Gross Earnings:			
Engineering and construction services	\$ 83,858,000	\$ 57,687,000	\$ 42,114,000
Consulting and other services	5,472,000	4,783,000	4,683,000
Securities underwriting and trading, and other income incident to investment banking business	7,430,000	16,545,000	15,712,000
Natural gas and oil sales, profit and other income from mineral interests (Note 2)	2,618,000	5,918,000	9,690,000
Cold storage and related activities	2,175,000	2,035,000	2,089,000
Dividends and interest	5,446,000	4,861,000	4,854,000
Profits on investment securities	—	—	1,131,000
Rents	1,276,000	1,510,000	1,527,000
Other	358,000	726,000	426,000
Total	108,633,000	94,065,000	82,226,000
Operating and General Expenses	69,140,000	60,544,000	57,105,000
Taxes, Other than Income Taxes	3,177,000	2,331,000	2,068,000
Provision for Depreciation and Depletion	1,574,000	1,633,000	1,652,000
Interest Expense	2,539,000	1,664,000	1,022,000
Total	76,430,000	66,172,000	61,847,000
Income before Provision for Income Taxes and Extraordinary Items	32,203,000	27,893,000	20,379,000
Provision for Income Taxes:			
Federal	10,998,000	10,278,000	6,699,000
State, local and foreign	4,390,000	2,091,000	692,000
	15,388,000	12,369,000	7,391,000
Income before Extraordinary Items	16,815,000	15,524,000	12,988,000
Extraordinary Items	—	3,974,000	—
Net Income	\$ 16,815,000	\$ 19,498,000	\$ 12,988,000
Dividends paid (Note 4)	\$ 3,125,000	\$ 7,275,000	\$ 7,393,000
Dividends paid per share (Notes 3 and 5)	\$2.00	\$1.92½	\$1.90
Earnings per share (Notes 3 and 6):			
Income before Extraordinary Items	4.49	4.13	3.34
Extraordinary Items	—	1.06	—
Net Income	4.49	5.19	3.34
Summary of Balance Sheet at End of Year:			
Current Assets	\$113,199,000	\$155,680,000	\$109,476,000
Investment Securities	5,783,000	6,547,000	7,218,000
Long-Term Receivable, less amount included under Current Assets	1,909,000	2,279,000	2,649,000
Natural Gas and Oil Properties and Other Mineral Interests	4,618,000	4,644,000	11,717,000
Cold Storage Plant and Equipment	7,603,000	7,369,000	6,891,000
Office Buildings and Other Real Estate	19,907,000	4,567,000	4,391,000
Other Assets and Deferred Charges	14,095,000	10,897,000	10,660,000
Total Assets	\$167,114,000	\$191,983,000	\$153,002,000
Current Liabilities	\$ 63,951,000	\$103,458,000	\$ 73,900,000
Long-Term Debt, less amount shown under Current Liabilities	3,024,000	914,000	1,102,000
Other Liabilities and Deferred Income Taxes	2,206,000	1,495,000	2,680,000
Deferred Profit	2,234,000	2,597,000	2,960,000
Stockholders' Equity:			
Preferred Stock	—	—	—
Common Stock, carried at	7,970,000	7,970,000	7,869,000
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000	8,927,000
Retained Earnings	95,855,000	83,675,000	69,973,000
	112,752,000	100,572,000	86,769,000
Less Common Stock in Treasury, at cost	17,053,000	17,053,000	14,409,000
Total Stockholders' Equity	95,699,000	83,519,000	72,360,000
Total Liabilities and Stockholders' Equity	\$167,114,000	\$191,983,000	\$153,002,000

Notes: (1) Years prior to 1972 have been restated to reflect the inclusion of foreign subsidiaries not previously consolidated.

(2) Includes gross earnings from Industrial Gas Supply Corporation (a former subsidiary) up to the date of its sale on June 15, 1972.

(3) Per share figures prior to 1967 have been restated to reflect the two-for-one stock split in December 1967.

INFORMATION (Note 1)

1970	1969	1968	1967	1966	1965	1964
\$ 39,208,000	\$ 31,384,000	\$ 25,789,000	\$ 23,685,000	\$21,269,000	\$ 22,969,000	\$17,515,000
4,862,000	5,316,000	5,018,000	5,148,000	4,697,000	4,612,000	4,050,000
11,392,000	10,928,000	7,361,000	7,400,000	4,201,000	3,750,000	3,421,000
9,984,000	9,929,000	9,501,000	8,938,000	9,040,000	9,116,000	8,912,000
1,861,000	1,611,000	1,438,000	1,279,000	1,012,000	842,000	751,000
5,386,000	5,038,000	4,990,000	4,740,000	4,840,000	4,336,000	3,643,000
7,864,000	218,000	660,000	—	—	4,000	240,000
1,444,000	1,278,000	1,240,000	1,007,000	928,000	994,000	995,000
162,000	14,000	165,000	14,000	56,000	45,000	12,000
82,163,000	65,716,000	56,162,000	52,211,000	46,043,000	46,668,000	39,539,000
49,926,000	43,704,000	35,536,000	31,651,000	30,191,000	26,061,000	23,546,000
2,023,000	1,831,000	1,706,000	1,278,000	1,341,000	1,484,000	1,497,000
1,467,000	1,356,000	1,278,000	1,264,000	1,208,000	1,217,000	910,000
799,000	726,000	468,000	281,000	238,000	351,000	216,000
54,215,000	47,617,000	38,988,000	34,474,000	32,978,000	29,113,000	26,169,000
27,948,000	18,099,000	17,174,000	17,737,000	13,065,000	17,555,000	13,370,000
9,647,000	5,555,000	4,892,000	5,594,000	4,679,000	4,931,000	4,327,000
1,604,000	1,857,000	1,621,000	1,179,000	(177,000)	1,481,000	685,000
11,251,000	7,412,000	6,513,000	6,773,000	4,502,000	6,412,000	5,012,000
16,697,000	10,687,000	10,661,000	10,964,000	8,563,000	11,143,000	8,358,000
—	—	—	646,000	—	717,000	—
\$ 16,697,000	\$ 10,687,000	\$ 10,661,000	\$ 11,610,000	\$ 8,563,000	\$ 11,860,000	\$ 8,358,000
\$ 7,465,000	\$ 7,541,000	\$ 7,255,000	\$ 7,164,000	\$ 7,216,000	\$ 6,730,000	\$ 6,199,000
\$1.90	\$1.90	\$1.80	\$1.75	\$1.75	\$1.62½	\$1.50
4.25	2.69	2.65	2.68	2.08	2.69	2.02
—	—	—	.16	—	.17	—
4.25	2.69	2.65	2.84	2.08	2.86	2.02
\$ 77,068,000	\$ 70,026,000	\$ 80,137,000	\$ 62,315,000	\$56,000,000	\$ 68,744,000	\$41,644,000
8,155,000	9,600,000	9,630,000	10,004,000	9,446,000	9,446,000	9,633,000
3,019,000	3,389,000	3,944,000	4,499,000	5,054,000	5,610,000	6,165,000
11,689,000	11,593,000	11,630,000	11,862,000	11,636,000	11,677,000	10,810,000
6,489,000	5,628,000	5,520,000	5,181,000	4,705,000	4,504,000	4,564,000
4,505,000	3,927,000	3,226,000	3,292,000	3,266,000	3,223,000	4,360,000
8,959,000	8,097,000	4,565,000	4,064,000	4,186,000	3,881,000	2,341,000
\$119,884,000	\$112,260,000	\$118,652,000	\$101,217,000	\$94,293,000	\$107,085,000	\$79,517,000
\$ 44,405,000	\$ 44,723,000	\$ 51,959,000	\$ 33,822,000	\$29,456,000	\$ 42,528,000	\$19,042,000
1,283,000	1,458,000	1,629,000	1,794,000	2,155,000	2,312,000	2,465,000
2,024,000	2,280,000	2,223,000	2,270,000	2,012,000	1,544,000	1,431,000
3,323,000	3,867,000	4,412,000	4,956,000	5,501,000	6,045,000	6,650,000
—	—	—	—	—	—	—
7,869,000	7,874,000	6,778,000	6,607,000	6,588,000	6,481,000	6,363,000
8,927,000	8,927,000	8,927,000	8,927,000	8,927,000	8,927,000	8,927,000
64,354,000	55,117,000	51,953,000	48,609,000	43,413,000	42,051,000	37,442,000
81,150,000	71,918,000	67,658,000	64,143,000	58,928,000	57,459,000	52,732,000
12,301,000	11,986,000	9,229,000	5,768,000	3,759,000	2,803,000	2,803,000
68,849,000	59,932,000	58,429,000	58,375,000	55,169,000	54,656,000	49,929,000
\$119,884,000	\$112,260,000	\$118,652,000	\$101,217,000	\$94,293,000	\$107,085,000	\$79,517,000

(4) In 1973 consists of cost of \$763,000 of Transcontinental Gas Pipe Line Corporation (Transco Companies, Inc.) shares distributed and cash of \$2,362,000.

(5) In 1973 represents the fair market value totaling \$1.45 of common stock of Transco and a cash dividend of 55¢ distributed to Stone & Webster stockholders.

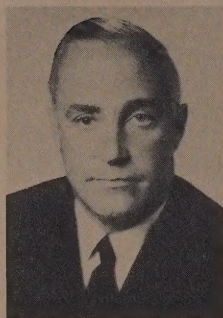
(6) Per share figures based on average number of shares outstanding during each year.

STONE & WEBSTER, Incorporated

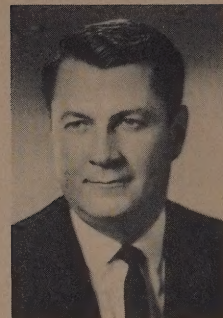
Directors



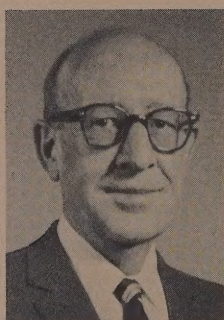
RAYMOND C. FOSTER
Chairman of the Board



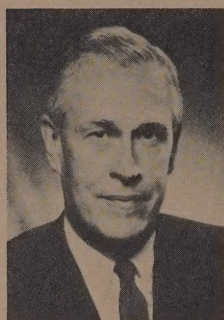
FRANK B. MUHLFELD
Vice Chairman of the Board



HALMER L. BAKER
President



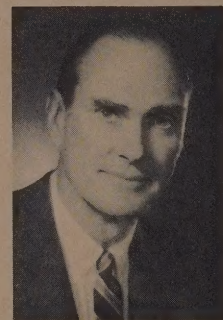
WHITNEY STONE
*Chairman of the
Executive Committee*



JOHN H. ALEXANDER
*Partner
Mudge Rose Guthrie &
Alexander*



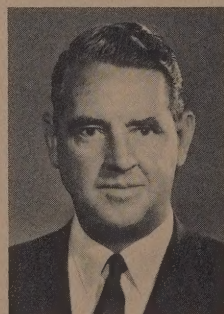
RICHARD N. BENJAMIN
*Former President
Stone & Webster, Incorporated*



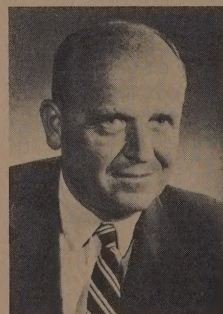
EDWARD C. BREWSTER
Trustee



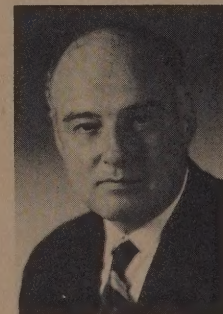
WILLIAM L. BROWN
*President
The First National Bank
of Boston*



HOWARD L. CLARK
*Chairman of the Board
American Express Company*



J. PETER GRACE
*Chairman and
Chief Executive Officer
W. R. Grace & Co.*



JOHN A. HOOPER
*Executive Vice President
The Chase Manhattan Bank, N.A.*

Officers

Chairman of the Board
RAYMOND C. FOSTER

Vice Chairman of the Board
FRANK B. MUHLFELD

President
HALMER L. BAKER

*Chairman of the
Executive Committee*
WHITNEY STONE

Financial Vice President
WILLIAM M. EGAN

Vice Presidents
JOHN A. CARTER, JR.
R. V. WHISNAND

Secretary
FRANKLIN E. CONGER

Treasurer
ROBERT F. GALLAGHER

Transfer Agent

THE CHASE MANHATTAN
BANK, N.A.
NEW YORK

Registrar

MANUFACTURERS HANOVER
TRUST COMPANY
NEW YORK

Stone & Webster traces its origin to a partnership formed in 1889 to conduct the profession of electrical engineering. During those early years there was great enthusiasm for electricity, still in its infancy as a power source. Hundreds of electrical projects had been rushed into existence in anticipation of a new golden era. Many of the ventures proved to be unwisely conceived, poorly managed and badly financed. Bankers, promoters and equipment manufacturers were constantly calling for assistance and advice, and frequently they called upon Stone & Webster.

An organization of experts was built up to make studies of such properties, to aid management and to assist in refinancing. Thus, even in the early part of the twentieth century, Stone & Webster was able to furnish on a coordinated, interrelated basis the services of a wide range of specialists to various client companies for whatever time was needed to solve their individual problems as well as to provide continuing advice on more routine matters.

In 1909, the Triskelion emblem or trademark (see cover) was adopted to identify the organization and symbolize its aims and purposes. The Triskelion represents motion, energy and progress, and the triangle is suggestive of stability, a firm foundation and upward constructive endeavor. At the same time, the Triskelion suggested the three interdependent service activities of the Stone & Webster organization—engineering, financial, and management consulting.

Stone & Webster is the one professional service organization today that can offer a complete service package covering engineering, financial, and management consulting.



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